May 19, 2008

Janice Adair
Chair, Western Climate Initiative
Washington State Department of Ecology
P.O. Box 47600
Olympia, WA 98504-7600

Dear Ms. Adair,

Land owners, forest managers, wood products manufacturers, conservation groups and technical experts from Oregon, Washington, and California are meeting regularly with the support of the Oregon Governor's staff and state agency personnel from Oregon and Washington to forge recommendations for the inclusion of the role of forest carbon in the Western Climate Initiative (WCI) cap-and-trade program. We are a diverse stakeholder group representing a wide spectrum of interests.

In previous correspondence to Mr. Tim Lesiuk (March 21, 2008) we indicated that we would be providing more specific detail on our pathway towards agreement in May 2008.

We have evaluated forestry offset projects in the context of the WCI design principles and remain convinced that a forestry protocol can be incorporated into the WCI program. Through this discussion, our group developed desired outcomes for a definition of baseline and intend to use these as a way to review the other WCI design principles. The desired outcomes include the concepts of; simplicity, encouraging participation, rewarding prior action, avoiding unintended consequences, serves as a common reference, inclusive of all significant measurable pools, linking to other green house gas (GHG) markets, and maintaining forests as forests.

Stakeholders agree that a properly structured forest carbon offset program can provide significant ecological, social, and economic benefits in addition to offsetting GHG emissions.

As the definition of baseline is often the crux of any offsets program, we have devoted much of our time to reviewing the existing approaches to baseline. The stakeholders have evaluated all of the existing approaches for baseline found in different forestry protocols. The types of baselines described below are best utilized to evaluate forest management projects. There are potentially other types of projects that can quantify "avoided emissions" such as avoided conversion or forest health risk reduction projects that may require different baseline methodologies.

- Business as Usual, inventory projection, based on regulations
- Business as Usual, inventory projection, based on common management practices (i.e. applicable industry standards)
- Business as Usual, based on past management practices
- No investment, inventory projection
- Base year inventory
- Base period inventory
- Regional mean inventory

We have conducted an evaluation of the strengths and weaknesses of each of these methods relative to established quality criteria, efficiency, equity, and other criteria detailed as desired outcomes. We recognize that there is no single perfect answer, and the Business as Usual, Regional mean inventory and Base inventory approaches all have different strengths and weaknesses that must be considered in attempting to best meet the broadest range of our desired outcomes.

The business as usual (BAU) approaches are consistent with standards such as the Voluntary Carbon Standard (VCS) and California Climate Action Registry (CCAR) and are real and generally additional. However, these approaches can vary project to project and are expensive to quantify and verify. In addition, the business as usual based on current regulations is problematic because regulations vary from state to state and do not always describe a minimum stocking level. This raises issues of both equity among states and ease of implementation.

The mean inventory approach has the advantage of being predictable, is efficient to implement as it isn't calculated on a project by project basis, and because the baseline is established using the appropriate regional stock inventory averages, a regional mean inventory approach treats all entities equally. However, while we value the recognition of prior action inherent in the mean inventory approach, we should note that it raises additionality concerns (because those that are already above the mean do not meet the "but for" test, meaning that they would not have stored the additional carbon but for the carbon project), and may not meet international offset standards for this reason.

The base inventory approaches are consistent with federal "1605 (b)" voluntary greenhouse gas (GHG) reporting guidelines, forestry climate change program design elements coordinated by Society of American Foresters, and protocols utilized by the Chicago Climate Exchange (CCX). Advantages of the base inventory approaches include that they are easily implemented, real, and verifiable. Concerns include whether the approach properly addresses the issue of additionality, which is likely to limit its acceptance by other regional, national, and global trading systems, and that it does not recognize prior positive actions.

Until such time that a clearly superior approach emerges, it may be wise to promote an array of approaches. Ultimately, for an offsets system to be successful it must be based on clear carbon accounting methods, be cost effective, and be administratively and operationally simple enough to encourage buyers and sellers to participate. Some

inventory approaches, as well as the business as usual and mean inventory approaches may be well suited to meet these tests. We will continue to refine our thinking and offer WCI our insights on this issue.

While we recognize that we have various technical issues to resolve, we are heartened by our shared goals, the collaborative nature of our discussions, and the strength of our shared commitment to developing quality forest offsets. Given our progress, our organizations request that WCI include in its draft recommendations an offsets component to the cap and trade design that specifically allows for forestry projects to participate. This statement would provide a clear signal to our collaborators to continue to work on establishing a mutually agreeable forestry offsets program that meets WCI's design principles. We would appreciate any comments or other input that can guide our process in a way that is helpful in your deliberations.

Sincerely,

American Forest Resource Council – Associated Oregon Loggers - Boise Cascade - California Forestry Association - Defenders of Wildlife - Ecotrust - Forest Capital Partners - Lone Rock Timber Company - Oregon Forest Industries Council - Oregon Small Woodlands Association - Oregon Woodland Cooperative - Roseburg Forest Products - Mark Copeland - The Collins Company - The Conservation Fund – The Nature Conservancy in Oregon - Washington Forest Protection Association – Weyerhaeuser Company

cc: Honorable Gordon Campbell, Premier, British Columbia
Honorable Christine Gregoire, Governor, Washington
Honorable Ted Kulongoski, Governor, Oregon
Honorable Arnold Schwarzenegger, Governor, California
Mr. Tim Lesiuk, Chair, WCI Offsets Committee